

It's important to understand disability benefits

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Q: I was recently injured during a softball game and my doctor said I could not return to work for 9-12 months. Am I eligible for New Jersey disability coverage? Are there other additional forms of disability coverage?

The problem: Not understanding your disability benefits.

Three in 10 workers entering the work force today will become disabled before retiring. An illness or accident will keep one in five workers out of work for at least a year during their working careers.

Unfortunately, over 70 percent of working Americans do not have enough savings to meet short-term emergencies. Most people do not understand their disability benefits until they are disabled.

The solution: Understanding your disability benefits.

New Jersey is one of only five states that offer disability benefits to their workforce. Just a quick background on disability benefits and disability insurance. Let's start with a basic definition of a disability. It is an accident, condition or illness that prevents you from performing your job responsibilities. Interestingly, a maternity leave may qualify you for disability benefits. Unlike workers compensation insurance, which provides coverage for injuries on the job, disability benefits cover workers for non-work related events.

Before we dig into disability benefits, let's dispel two common myths about publicly provided disability benefits.

Myth number one: The state of New Jersey provides adequate coverage.

Unfortunately, New Jersey provides the lesser of two-thirds of your weekly wage or \$502 per week. Benefits are limited to 26 weeks or \$13,052 and are not payable immediately. Most individuals cannot survive on this meager benefit.

Myth number two: The federal government provides adequate coverage.

Unfortunately, the federal government's Social Security Disability Insurance (SSDI) program is available only to those out of work for at least one year. A startling 70 percent of claims are denied. The average monthly SSDI benefit is a mere \$978. Clearly, this is an inadequate benefit for those individuals that do qualify for benefits.

Disability insurance provides a source of replacement income during your disability. It provides an income stream to partially replace the wages lost when you are unable to work for an extended period of time.

Most policies limit coverage to 60 to 70 percent of your previous income. State laws and insurance regulations are designed to discourage workers from realizing the same level of income while disabled. In essence, this provides an incentive to return to the work force.

Disability insurance policies should be examined based on three key criteria: the elimination period, the benefit period, and inflation protection.

The elimination period defines how long you will be precluded from receiving benefits. The longer the elimination period, the lower the cost of the policy.

The benefit period defines how long a benefit will be paid. A typical benefit period is through the age of 65. Coincidentally, this is the age at which many workers are eligible for full benefits under Social Security.

Inflation protection is a critical part of any policy. In order to keep up with the rising costs of living, most policies provide for inflation protection ranging from 3 to 5 percent compounded on an annual basis.

Many employers provide a combination of short and/or long-term disability benefits. These benefits may or may not be employer paid or subsidized. Although benefits provided by an employer may come with a lower price tag, due to group pricing, they are not generally transferable if you leave the employer. An individual disability insurance policy provides much greater flexibility, as it is not tied to a specific employer.

Action step: establish disability insurance.

Establishing disability insurance immediately reduces the financial and psychological burdens that can cause hardship when the need for disability benefits arrives. Like most insurance, the earlier you start your policy the lower the cost of the policy.

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